

**BOARD OF WATER SUPPLY  
CITY AND COUNTY OF HONOLULU**

SINGLE AUDIT REPORTS

Fiscal Year Ended June 30, 2017

December 11, 2017

To the Board of Directors  
Board of Water Supply  
City and County of Honolulu

We have completed our audit of the basic financial statements of the Board of Water Supply (the “BWS”), a component unit of the City and County of Honolulu, as of and for the fiscal year ended June 30, 2017. Our report containing our opinion on those basic financial statements is included under a separate cover. We submit herein our reports on the BWS’s internal control over financial reporting and compliance, compliance for each major federal program, internal control over compliance, and on the schedule of expenditures of federal awards.

## **OBJECTIVES OF THE AUDIT**

The primary objectives of the audit were as follows:

1. To express an opinion as to whether the financial statements are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to report on the fairness of the schedules of expenditures of federal awards, bonds payable and net revenue requirement when considered in relation to the financial statements as a whole.
2. To report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements in accordance with *Government Auditing Standards*.
3. To report on internal control related to major federal programs and an opinion on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

## SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance.

## ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - Report on internal control over financial reporting and on compliance and other matters.
- Part II - Report on compliance for each major federal program; report on internal control over compliance; and report on the schedule of expenditures of federal awards required by the Uniform Guidance.
- Part III - The schedule of findings and questioned costs.
- Part IV - The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the staff of the BWS.

Sincerely,

*N + K CPAs, INC.*

N&K CPAs, Inc.

**BOARD OF WATER SUPPLY**

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**PART I**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Board of Water Supply  
City and County of Honolulu

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Water Supply (the "BWS"), a component unit of the City and County of Honolulu, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the BWS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWS's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWS's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BWS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*N + K CPAs, INC.*

Honolulu, Hawai'i  
December 11, 2017

**PART II**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Board of Water Supply  
City and County of Honolulu

**Report on Compliance for Each Major Federal Program**

We have audited the Board of Water Supply's (the "BWS") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the BWS's major federal programs for the fiscal year ended June 30, 2017. The BWS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the BWS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the BWS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the BWS's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the BWS, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of the BWS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the BWS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the BWS's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the BWS, as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated December 11, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*N + K CPAs, INC.*

Honolulu, Hawai'i  
December 11, 2017

**Board of Water Supply  
City and County of Honolulu  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Pass-through Department of Health, State of Hawai'i			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	ASO Log 15-059	\$ 2,874,738
	66.468	ASO Log 15-079	<u>423,368</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>3,298,106</u></b>

The accompanying notes are an integral part of this schedule.

**Board of Water Supply  
City and County of Honolulu  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2017**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the BWS under programs of the federal government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the BWS, it is not intended to and does not present the financial position, changes in net position, or cash flows of the BWS.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on a modified accrual basis of accounting under which expenditures are reported when incurred and when reimbursed by federal loan proceeds received from the pass-through entity during the audit period. Such expenditures are recognized following the cost principles contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - INDIRECT COST RATE**

The BWS has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**PART III**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Board of Water Supply  
City and County of Honolulu  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2017**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes       no

Significant deficiency(ies) identified?

yes       none reported

Noncompliance material to financial statements noted?

yes       no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

yes       no

Significant deficiency(ies) identified?

yes       none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes       no

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

66.468

Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

yes       no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**PART IV**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**(Provided By The Board Of Water Supply)**

**Board of Water Supply  
City and County of Honolulu  
STATUS REPORT  
Fiscal Year Ended June 30, 2017**

This section contains the current status of the prior audit recommendation provided by the Board of Water Supply. The recommendation is referenced to the page of the previous audit report for the fiscal year ended June 30, 2016, dated January 10, 2017.

Reference Number	Recommendation	Current Status
<b>2016-001</b>	<b>Improve Internal Controls Over Accounting for Significant Nonroutine Transactions</b>  Management should proactively identify significant, nonroutine accounting transactions and ensure that a process is established whereby management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and the timely review of the transactions posted to the BWS's accounting system.	Accomplished.